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INTRODUCTION

International accounting organizations face the same conflicting trends in the world's political economy that affect other international service and manufacturing industries. The past four decades of growing worldwide trade, investment and economic interdependence have generated increased demand and opened new markets. At the same time, however, new forms of economic nationalism and protectionism are constraining the ability of international accounting organizations to employ their assets in meeting this demand and developing these market opportunities.

One approach to relieving this tension is the negotiation of multilateral rules for trade in services similar to the multilateral agreements currently governing merchandise trade. This approach, however, will require an adaptation of the concept of "trade" to service industries. Trade, in the traditional sense of moving a product from one national market to another, is relevant to service industries, but it is not the central concern. The ability to enter foreign markets and establish local firms affiliated with international organizations is also important. Meaningful access can be obtained only if the local affiliate is accorded equal treatment, under the country's laws and regulations, to other firms operating in the same national market. To compete in that market, furthermore, the local affiliate must also be able to share resources with its international organization. Therefore it must be able to transfer financial resources, professional personnel, technology and information to and from other national affiliates and the international organization.

This article examines the barriers to international trade which

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affect international accounting organizations and consumers of accounting services, and recommends actions to eliminate those barriers. Section I reviews the services, patterns of growth and structure of the international accounting organizations. Section II presents reasons why the reduction of impediments in the accounting sector is in the best interest of both developing and developed national economies because of the special capabilities of the international accounting organizations and the contributions they make to national economic growth and development.

Section III identifies and analyzes the principal impediments to the operations of the international accounting organizations, based on a survey of Arthur Andersen member firms around the world.[1] The final section proposes actions by the firms, the accounting profession and the national governments to address these impediments in order to ensure that society benefits from service trade liberalization.

At the outset, it must be said that the general problem of inadequate data on international service industries is especially acute in the accounting sector,[2] where the firms are privately-owned and composed of locally-owned operations in each country. Several international accounting organizations, however, have voluntarily disclosed information on their operations to some degree.[3] References in this article to international accounting organizations refer primarily to the "Big Nine" public accounting firms, although many observations apply to smaller international firms as well.[4] As noted, the examination of impediments to the operations of inter-

[1] Survey results are discussed in Section III. Because of the sensitivity of certain survey results, Arthur Andersen has not made the raw survey data public. Responsibility for the accuracy of the data summaries presented, both in the text, and for inferences drawn therefrom, rests solely with Arthur Andersen & Co.

[2] For a discussion of the lack of adequate data for services, see Economic Consulting Services, Inc., The International Operations of U.S. Service Industries: Current Data Collection and Analysis (1981)("Economic Consulting Services, Inc., International Operations of U.S. Service Industries"); Subcommittee on Economic Stabilization of the House Committee on Banking, Finance, and Urban Affairs, Service Industries: The Changing Shape of the American Economy, 98th Cong. 2d Sess. 11-13 (1984)(Comm. Print No. 98-16). A U.S. Department of Commerce survey of service transactions, currently available in draft, should help to fill many gaps in the present data on international services. U.S. Department of Commerce, Benchmark Survey of U.S. Services Transactions with Unaffiliated Foreign Persons 1985 (copy on file with University of Chicago Legal Forum.)

[3] See Vinod B. Bavishi and Harold E. Wyman, Who Audits the World: Trends in the Worldwide Accounting Profession 51-52 (1983).

[4] The "Big Nine" accounting firms include: Arthur Andersen & Co.; Arthur Young & Co.; Coopers & Lybrand; Deloitte, Haskins & Sells; Ernst & Whinney; Klynveld Main Goerdeler; Peat, Marwick, Mitchell & Co.; Price Waterhouse; and Touche Ross & Co.

national accounting organizations comes primarily from the internal survey and analysis of The Arthur Andersen Worldwide Organization. Although each international accounting organization has unique features, this article's analysis is based on the premise that Arthur Andersen's experience approximates the experience of the accounting profession as a whole.

I. International Accounting Organizations: Their Services, Growth and Structure

Identifying and analyzing governmental impediments and professional constraints on the operations of international accounting organizations, much less proposing solutions to these problems, require a basic understanding of the accounting profession. Several aspects of the profession are especially critical: the sensitivity of some services, especially audit services, to governmental oversight and public scrutiny; the patterns of growth and the significance of international operations; and firms' organizational structures as a response to their desire for international growth even in the face of constraints imposed by economic nationalism.

A. Services Provided by Accounting Firms

Accounting firm services fall into three basic categories related to financial management: audit and accounting services; tax services; and management consulting.

1. *Audit and Accounting Services.* Audit and accounting services are the firms' main line of business and account for between 50 and 80 percent of the major firms' revenues.[5] In providing audit and accounting services, accountants seek to improve the integrity of financial information reported by their clients and to recommend improvements in their clients' record-keeping and financial control systems. Auditors are engaged by corporations and other organizations to provide an independent opinion that the financial statements prepared by these organizations present fairly the results of operations and the financial position of the entity in accordance with specified accounting standards. Clients also engage auditors for advice and support in designing reliable record-keeping systems, checking the effectiveness of such systems, and developing additional financial information for use by management. These latter services are provided to both public and private sector

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[5] See Elizabeth Corcoran, IAB World Survey: Global Growth Continues, 18 Int'l Acct. Bull. 17 (1984).

organizations.

Independent audits are one means of protecting the public interest in the sound management of client organizations. The demand for these services is created, in large part, by legally imposed reporting obligations. This, in turn, requires government agencies, the accounting profession or some combination of the two to ensure that the independent auditors have the requisite professional qualifications, that they apply appropriate accounting standards and auditing techniques, and that they maintain their independence from the reporting organizations.

In the United States, requirements that publicly-held corporations issue independently audited financial statements were established in the Securities Act of 1933 and the Securities Exchange Act of 1934.[6] The Securities and Exchange Commission (SEC) oversees the accounting standards used in complying with the securities laws and has the power to discipline independent auditors for improper or illegal acts in carrying out their responsibilities under these laws.[7] The states set requirements for becoming a Certified Public Accountant (CPA) and grant certification, although the accounting profession itself, through the American Institute of Certified Public Accountants (AICPA), prepares the uniform national examination used by the states in granting CPA status. The Financial Accounting Standards Board, an independent organization, develops the generally accepted accounting principles and auditing standards used in complying with the securities laws. Finally, the profession, through the AICPA, the individual firms and the SEC establish standards of professional ethics and independence.[8]

The respective roles of the government and the profession vary from country to country. In some countries, the profession primarily determines requirements for certifying accountants, setting and enforcing accounting standards and the standards of independence, including limitations on the scope of practice. Else-

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[6] Securities Act of 1933, 15 U.S.C. §§ 77aa(25)-77aa(26) (1982); Securities Exchange Act of 1934, 15 U.S.C. §§ 78*l*, 78m(a)(2) (1982) (requiring that registration statements for new issues of stock contain balance sheets and financial statements prepared by an independent or certified public accountant and making sales of stock on national exchanges dependent upon preparation and certification of annual reports by independent public accountants).

[7] 15 U.S.C. §§ 78w(a), 78u(a); 15 U.S.C. § 77t(a) (vesting SEC with rulemaking, investigatory and enforcement powers respectively).

[8] See generally American Institute of Certified Public Accountants, 2 Professional Standards (1973 & Supp. 1986) (Code of Professional Ethics).

where, governments closely regulate the full spectrum of activities related to the accounting profession.[9]

2. *Tax Services.* Tax services, the second traditional line of business, account for between ten and thirty percent of the major international accounting organizations' revenues.[10] Tax services focus on tax planning and on resolving varied tax issues and problems for business organizations. These services include analyzing the tax consequences of business decisions, recommending tax strategies that contribute to business objectives, and seeking the opinion of, as well as defending positions before, the tax authorities. These services are offered to individuals and organizations affected by various taxing authorities.

The increased demand for these services stems from the growing complexity of the tax laws and regulations of national, state and local governments in individual countries, as well as from the complexities inherent in taxing organizations that operate across national borders or in multiple national markets.

3. *Management Consulting.* Management consulting is the fastest-growing service line for international accounting organizations,[11] now providing between 10 and 30 percent of their revenues.[12] The main line of business in this category evolved from the financial information and advisory services provided in the accounting and tax areas, and from the modern application of computers to management needs. To a large extent, consulting services involve the planning, design and installation of computer systems to process business transactions and to provide information to management. Other types of management consulting services offered by some major firms include strategic planning, market and feasibility studies, tailored business research, and merger and acquisition assistance. These services provide information that aids management in planning and controlling operations and using an organization's resources effectively. Public sector organizations, in addition to private businesses, constitute an increasingly important market for many consulting services.

4. *Other Services.* Most international accounting organiza-

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[9] The AICPA is presently revising its reference work on regulation of the profession around the world. Somewhat outdated but still useful summaries of government and professional regulation of accountants in various countries, including the United States, may be found in American Institute of Certified Public Accountants, Professional Accounting in 30 Countries (1975).

[10] See Corcoran, 18 Int'l Acct. Bull. at 17 (cited in note 5).

[11] Id. at 18.

[12] Id. at 17.

tions have branched out into other service lines.[13] For example, all have strong traditions of internal training and education programs to assure that their professional personnel maintain state-of-the-art skills. This investment in professional education has led to the development of educational programs offered to clients in both the public and private sectors.

B. Patterns of International Growth

The success of international accounting organizations in their main line of business, audit and accounting services, derives from the intimate knowledge they develop of their clients' businesses, operations and financial transactions. These relationships, in many cases, are the basis upon which clients seek additional advisory services in the tax and management consulting areas.

The initial reason why international accounting organizations expanded across national borders was the desire to preserve strong relationships with their clients. As clients moved into foreign markets and became multinational organizations, accounting firms followed. These firms merged with local accounting firms in the new markets, made special arrangements with local firms for servicing the expanding firms' clients, or established new local practices. This traditional pattern of international growth might be described as a defensive strategy. The firms moved abroad at the request of particular clients, motivated by the desire to prevent the erosion of an existing client relationship or to avoid ceding a client service opportunity to a competitor already established in the particular foreign market.[14]

This pattern of growth began in the nineteenth century when, for example, British accountants followed British investment into the U.S. and other countries.[15] As the U.S. became a capital exporter, especially with the twenty-fold increase in U.S. private direct investment abroad and the huge expansion of world trade between the early 1950s and the early 1980s,[16] enormous demand was

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[13] A summary of the range of professional services offered by each of the major accounting firms may be found in Subcommittee on Reports, Accounting and Management of the Senate Committee on Government Operations, The Accounting Establishment: A Staff Study, 94th Cong., 2d Sess. 30 (1976) (Comm. Print).

[14] For a discussion of the motivations and patterns of the international growth of accounting firms, see John W. Buckley and Peter O'Sullivan, International Economics and Multinational Accounting Firms, in John C. Burton, ed., The International World of Accounting: Challenges and Opportunities 115 (1981) ("Multinational Accounting Firms").

[15] Id. at 115-16.

[16] See U.S. Department of Commerce, International Trade Administration, Interna-

created among U.S. multinational corporations for overseas audit, accounting and other advisory services from their U.S. accounting firms. These services were required not only for the new client operations in foreign markets, but also to help clients forge better links between their numerous overseas activities (operating under multiple accounting and tax systems) and the parent corporation so that client managers and others could obtain a unified picture of the their global financial situation.

International business demand for accounting and management consulting services was supplemented by other demands for these services created by the establishment and growth of post-World War II inter-governmental organizations, such as the United Nations, the International Monetary Fund, the World Bank, regional development banks and the European Communities. These organizations stimulated demand for accounting services through their development finance activities in developing countries. They also placed new reporting requirements on international business.

The traditional pattern of defensive international growth has given way in recent years to new offensive strategies. These attempts to expand are driven by diminishing opportunities for growth through audit and accounting services in key markets (such as the United States and the United Kingdom) and by new opportunities created by the initial entrance into foreign markets.[17] International accounting organizations have sought new sources of growth as competition among them has intensified in well-established markets and as clients have increasingly come to view audit and accounting services as a uniform product, so that the choice among competing providers is now more subject to price considerations than it was in the past.[18] One source of growth has been the newly industrialized and developing countries, which international accounting organizations entered principally in order to serve the international operations of existing clients from other countries. Many developing countries have experienced significant economic growth over the past few decades and now have their own large national markets for accounting services. The firms hope to replicate their growth in traditional markets by building national practices in emerging markets abroad.

Only a handful of the many thousands of independent ac-

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tional Direct Investment: Global Trends and the U.S. Role 53 (1984).

[17] Buckley and O'Sullivan at 123-26 (cited in note 14).

[18] David Cairns, Michael Lafferty and Peter Mantle, Survey of Accounts and Accountants 1983-84 at 190-91 (1984) ("Accounts and Accountants").

counting firms worldwide have followed these patterns of international growth. The "Big Nine", with worldwide revenues from about $900 million to about $1.5 billion annually, have all developed into truly multinational business organizations. These international accounting organizations each have member firms in between fifty and 100 countries, and non-U.S. operations account for 25 to 50 percent or more of their collective worldwide revenues.[19] Available information demonstrates, however, that many other firms, though smaller, have also developed into multinational organizations. For example, the next dozen largest firms after the "Big Nine," with annual revenues ranging from about $100 to $400 million, have operations in from twenty to seventy countries each. Many other smaller firms, with annual revenues well under $100 million, operate in several national markets in various geographic regions of the world—these include overseas firms that have followed their clients into the United States.[20]

C. The Structure of International Accounting Organizations

The international accounting organizations have balanced several important considerations in building their international structures. First, because the operations in each country ("national practice entities") are typically privately-owned partnerships, the structure of the international organizations must give professional employees throughout the world an opportunity to become partners or owner-managers if they are to attract top-notch talent. In addition, because accounting standards and professional certification requirements vary from country to country, the provision of audit and accounting services requires the employment of nationals in each market. Furthermore, success in any market, especially for professional services where client relations are critical, requires an intimate knowledge of the language, business practices and customs, commercial and tax laws and regulations, and national aspirations. All these considerations, which argue for purely national firms, must be balanced, however, against client demands for multinational service and the special capabilities of international organizations.

International accounting organizations have addressed these

[19] Corcoran, IAB World Survey at 17-18 (cited in note 5); U.S. Department of Commerce, International Trade Administration, Current Developments in U.S. International Service Industries 15 (1980), citing Peter W. Bernstein, Competition Comes to Accounting, 98 Fortune 88 (1978).

[20] Corcoran, 18 Int'l Acct. Bull. at 17-18 (cited in note 5).

multiple needs through the relatively unique structure of authentically national firms, owned and managed by citizens of the countries in which they are located, but linked to an international organization that retains coordinating and other responsibilities. The international firms vary principally according to the degree of centralized coordinating authority and management direction emanating from the international organization.

Arthur Andersen, for example, is widely considered to have the most centralized coordination of the "Big Nine" firms.[21] Under the Arthur Andersen organizational structure, developed in the late 1970s, a two-dimensional relationship exists. One dimension is that each national practice entity is owned and managed by citizens of the country in which it is located; these partners are solely responsible for delivering professional services. The second dimension is that all of these partners are also members of the Arthur Andersen & Co., Societe Cooperative (S.C.), a cooperative society domiciled in and organized under the laws of Switzerland. The S.C. exists to develop and promote uniform standards of practice, to provide training, and to ensure adherence to uniform quality and ethical standards. As a member of the S.C., each national partner participates in developing these policies and procedures. The S.C. thus provides centralized direction to the entire worldwide organization. The S.C. performs its administrative activities on a break-even basis.[22]

Other international accounting organizations tend to be less centrally organized. At the opposite end of the spectrum from Arthur Andersen are amalgamations of many national firms operating largely under their individual names and relying less on their international organizations as resource centers.[23]

In addition to this main form of organization—national firms linked to international organizations—other organizational arrangements have filled gaps in geographic coverage. These arrangements include foreign subsidiaries or branches of one or more of the national practice entities, representation of the international organization in certain markets by independent firms, and tempo-

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[21] Cairns, Lafferty and Mantle, Accounts and Accountants at 198 (cited in note 18).

[22] A description of Arthur Andersen & Co.'s organizational structure can be found in Arthur Andersen & Co., Response to Accounting Firm Questionnaire Requested by the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce, 8-12 (September 30, 1985) ("Response to Questionnaire") (excerpts on file with the University of Chicago Legal Forum).

[23] For a description of the various organizational structures of the international accounting firms, see Bavishi and Wyman, Who Audits the World at 27-28 (cited in note 3).

rary assignment of personnel to specific engagements in countries where a firm has no permanent base.

II. The Benefits of Reducing Impediments to the Operations of International Accounting Organizations

Some foreign governments fear liberalization of trade in the service sector, out of the belief that the entry of some new firms will harm, rather than help, their countries' economies. In fact, international accounting organizations contribute significantly to the economies in which their national practice entities operate, and the reduction of impediments to their operations is therefore in the best interest of those nations' economies.

The traditional contributions of income generation, job creation, and the development of greater efficiencies stemming from competition and economies of scale are important. But unique contributions to economic development also stem from the firms' international networks and from the types of services they provide.

A. Added Capabilities of International Accounting Organizations

An international accounting organization's multinational character, size, and financial resources permit the development of a wide range of experience that can be applied to both general and specialized market demands and adapted to individual national requirements. These factors also facilitate ongoing investment in innovation and in the enhancement of professional skills.

1. *Local Experience and Transnational Capabilities.* The national practice entities affiliated with the international accounting organizations understand and participate fully in local markets. They, just as their unaffiliated national competitors, offer those services required by domestic and foreign clients in each country. The principal difference between the services provided by internationally-affiliated firms and those provided by purely local firms is that, through their international networks, affiliated firms can assure clients of continuing service as they move out of their home bases into foreign markets. They can also assure transnational service to assist clients in linking together their multinational business operations. In effect, international accounting organizations have both the established bases for providing services tailored to each individual national market and the transnational network to meet client needs generated by international trade, investment and financial transactions.

2. *Uniform Standards and Quality Control.* Standards of quality and quality controls vary from firm to firm and from country to country, according to the requirements of local laws, the development of the profession and the demands of the marketplace. The international accounting organizations, however, have generally set and enforced higher uniform standards of quality and quality control systems, applicable to all their national practice entities. These higher standards evolved naturally from the firms' international growth in serving multinational clients. These clients not only requested that the firms extend their services to new national markets, but also expected that, in doing so, the firms would replicate the quality of service they had come to expect from them at home.[24] Moreover, because many of the multinational clients and the international firms themselves originated in countries with long traditions and vigorous competition in the accounting sector and high consumption of accounting services, worldwide standards of quality and quality controls used by these firms tend to reflect the standards these firms achieved in these sophisticated national markets. These uniform standards and quality controls are enforced, to one degree or another, by the contractual arrangements between individual national practice entities and the international organizations which set the standards, provide the training, and develop the procedures and management directives to assure that they are maintained.[25]

3. *Specialized Capabilities.* The international accounting organizations' size and international scope also allow the national practice entities to draw on specialized skills that may not be widely used or well developed in their individual national markets. These skills may pertain to particular industries, types of transactions, management techniques or computer applications. The financial resources and the large, diversified client pools that exist worldwide permit investment in the development of specialized skills and attainment of the economies of scale which make these investments profitable. Moreover, the international networks in which the national practice entities participate allow each national practice to draw on the skills and experience of every other affiliated national practice. The specialized skills are, in effect, "imported" and "exported" through the temporary assignment of expatriates and through access to worldwide training, professional education programs and technical information provided by the in-

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[24] See Arthur Andersen & Co, Response to Questionnaire at 9 (cited in note 22).
[25] Id. at 10-11.

ternational organization.

4. *Training and Professional Education.* The size and resources of the international accounting organizations also allow them to invest heavily in training and professional education. This is a significant asset that permits partners and professional employees to refresh their skills, learn new techniques and obtain new competencies throughout their professional careers. As previously noted, professional education is also a primary means by which skills, experience and specializations are transferred, and quality standards and controls are maintained, among the national practice entities.[26] As a service line, training and professional education provides a means to assist clients in becoming more knowledgeable and sophisticated about the firms' services and the potential for applying them to client operations.

5. *Name Recognition.* A less tangible, though highly significant asset of the international accounting organizations is their names. In new markets, the widely recognized firm names supply valuable information to clients who have had previous experience with that firm in other countries. It conveys the common capabilities, experience, quality and training shared by the national practice entities operating under one name.[27]

B. Benefits to Local Economies

The nature of the services provided by the national practice entities, and their access to international resources, enable the international accounting organizations to make unique contributions to both the public and private sectors of each of the countries their national practice entities serve. International accounting organizations now play the same developmental role that British accounting firms played in the nineteenth century, when the United States imported development capital from Europe. The important difference is that present-day firms depend on local ownership, management and staffing.

1. *Public Sector Finance and Management.* All governments—national, state, provincial, or municipal—must manage

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[26] For additional information on the importance of resources devoted to training and professional education, see id. at 30-32.

[27] Arthur Andersen & Co., S.C., for example, has specific guidelines and rules for the use of the "Arthur Andersen" name to ensure that its use is connected only with activities meeting the S.C.'s standards of quality, professional ethics and independence. For a brief discussion of the competitive and operational importance of a widely-recognized firm name, see U.S. National Study on Trade in Services, A Submission by the United States Government to the General Agreement on Tariffs and Trade 147 (1984) ("U.S. Study").

limited financial resources to meet the economic and social development needs of their constituencies. International accounting organizations play a significant worldwide role in assisting governments to improve financial management through their national practice entities' services as independent advisors to the public sector.[28] The international organizations are a unique resource because they can draw on their experience with government entities at all levels and under various political systems. These services produce better revenue collection systems, sounder budgetary procedures and controls, and more effective management of government agencies and public enterprises. The international accounting organizations, through their national practice entities, also assist governments in major project planning and implementation through feasibility and market studies, design of financial controls and accounting systems, and follow-up training of local personnel. These services help governments in virtually every field of their domestic responsibilities: agriculture, education, health care, housing, industrial development, natural resource management and transportation.[29] The services of the national practice entities also include advice to governments on international trade and investment, foreign exchange and debt management, and development assistance programs.

2. *Development of National Financial Markets.* Accounting firms, especially through their audit practices, are crucial to the development and operation of national capital and financial markets are key components of the economic development process. They provide the added assurance that reported financial information is presented fairly and has been prepared in accordance with stated accounting principles. By doing so, they contribute to the smooth functioning of capital markets as a whole. International accounting organizations make this contribution through their national practice entities and by transferring professional skills that convey the most advanced audit and accounting techniques and the highest standards of quality.

3. *Technology Transfer.* The international accounting orga-

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[28] See generally Arthur Andersen & Co., Professional Services in the Public Sector, Subject File AA 5671, Item 1 (1976) (copy on file with the University of Chicago Legal Forum).

[29] For a representative description of the range of services international accounting organizations, through their national practice entities, provide to governments in various regions of the world, see Arthur Andersen & Co., Office of Federal Services, Consulting Firm Registration with the World Bank Group (1984) (copy on file with the University of Chicago Legal Forum).

nizations are major agents of technology transfer. The essential purpose of the international organizations is to transfer information, skills and know-how to the national practice entities which, in turn, transfer them to clients. The affiliated national practice entities participating in this process can draw on the worldwide organization's wide range of experience, innovation and techniques, adapting them to local conditions and market demand. For example, Arthur Andersen's member firm in Japan has transferred "Just-in-Time" productivity techniques to other national practice entities around the world. Similarly, Arthur Andersen's U.S. firm has transferred "Materials Requirements Planning" techniques to other Arthur Andersen national practices.[30] Such technology transfers benefit both the countries and clients involved.

4. *Enhanced Competitiveness of National Industries.* The very nature of the services provided by the firms makes their clients more competitive in their domestic and foreign markets. Better financial management, more efficient use of resources, more advanced marketing, production and management techniques are the consequence of services provided to local clients. These services are especially important to industries in developing countries which often must compete against more experienced foreign companies at home and in international markets.

5. *Links to World Markets.* The international accounting organizations also facilitate international trade and investment by assisting clients in these transactions in their adaptation to new foreign markets and, generally, in making the transition from domestic to multinational businesses. They do so by filling the need for reliable financial and management information about conducting business under multiple national accounting standards, tax systems, government regulatory systems and currencies.[31] The U.S. practice entities, for example, are a significant source of information and advice for overseas enterprises wishing to enter the U.S. market through trade and investment.

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[30] See Duane R. Kullberg, Strategic Challenges and Opportunities for the Service Sector in Non-U.S. Markets 4-6 (April 23, 1985) (speech delivered at the Center for International Business Annual Symposium) (copy on file with the University of Chicago Legal Forum).

[31] See Economic Consulting Services, Inc., International Operations of U.S. Service Industries at 74 (cited in note 2).

C. The Participation of National Practice Entities in Local Economies

In some countries, the size and capabilities of international service firms in general, and of international accounting organizations in particular, have caused concerns about foreign penetration of national markets.[32] These concerns, however, are largely unfounded. At least as far as the accounting industry is concerned, the most significant misperception is, of course, that the national practice entities are foreign; in fact they are nationally owned and managed partnerships with links to international organizations and access to their resources. Most of the services provided by accounting firms can only be "produced" in the same place where they are consumed—and the place of consumption is usually where the consumer resides. This is one reason why providers of auditing services must reside in the same country as their clients. Therefore, in a sense, the very concept of a genuinely "foreign" auditor is an impossibility, and government opposition to internationally-affiliated firms as foreign is misguided.

Protectionist efforts, furthermore, are often aimed at international service providers out of fear that they already have—or will otherwise obtain—excessive power in the markets in which they compete.[33] To the extent data are available on this issue, however, they suggest that the accounting profession, in relatively open markets, is highly competitive. The protectionist challenge is further mitigated by the fact that "Big Nine" firms in most countries are national entities, not subsidiaries of a multinational.

Information on shares of national markets around the world do not exist in any complete or comprehensive form. The limited data which are available show that the national practice entities of the eight or nine largest international accounting organizations collectively audit most of the largest publicly-held companies in the two countries where most of the firms originated—the United Kingdom and the United States.[34] The largest publicly-held companies, however, constitute only part of the national market for accounting services. Moreover, the collective market share of the largest thirteen firms drops significantly in many national markets

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[32] See Buckley and O'Sullivan, Multinational Accounting Firms at 129 (cited in note 14).

[33] See Thierry J. Noyelle and Anne B. Dutka, The Economics of the World Market for Business Services: Implications for Negotiations on Trade in Services, 1986 U. Chi. Legal F. 57, 89-92.

[34] Bavishi and Wyman, Who Audits the World at 72, 88 (cited in note 3).

outside the U.K. and the U.S. even among the limited sample of the largest publicly-held companies in other countries.[35]

Furthermore, the major international accounting organizations compete intensely through their national practice entities as well as with unaffiliated firms in every national market. This competition is not limited to accounting firms, but also includes many non-accounting management consulting firms and tax advisory services.

The nature of the services provided by the affiliated firms, and the extent of the resources and skills which international organizations can bring to bear in providing these services, make their private clients more competitive in both domestic and foreign markets. The services provided to the public sector are also important, particularly to the governments of developing nations, which are working to integrate their own national economies into the world economic order. The value of the international accounting organizations' contributions to both the public and private sectors thus makes their operations beneficial to the economies of the countries whose governments permit them; therefore reducing barriers to trade in accounting services is the wisest course.

III. Impediments to the Operations of International Accounting Organizations

The international growth and geographic spread of the major accounting organizations suggest that they have found their entry into and operations within various countries relatively unfettered by discriminatory national government impediments and professional constraints. This multinational success can be attributed to several factors previously discussed: the structure of these entities as national partnerships affiliated with international organizations; their initial growth pattern of providing services to multinational businesses; and the economic and developmental benefits their professional service capabilities yield for the countries in which the national practice entities are located.

Nonetheless, as the international accounting organizations and their affiliated national practice entities have developed clients independent of multinational businesses in each country, and as they have adopted new strategies for international growth, these firms have begun to encounter governmental and professional constraints that limit the ability of the national practice entities to draw on the resources of their international organizations. The

[35] Id. at 86-88.

scope, significance and trends in the occurrence of these impediments have not yet been fully documented. It appears, however, that they are becoming more frequent and deserve attention in multilateral negotiations on services trade liberalization.[36]

Significant and welcome investigations of impediments commonly encountered by service industries as a group, and impediments specific to accounting services, have been undertaken by the Office of the United States Trade Representative, the U.S. Department of Commerce and other national and international organizations preparing for multilateral negotiations on service issues. To supplement this work, Arthur Andersen carried out a more detailed survey of its national practice entities worldwide. The survey results cover twenty-seven countries in all regions of the world except the Middle East—seventeen industrialized countries (members of the Organization for Economic Co-operation and Development (OECD)) and ten developing countries. The Arthur Andersen Worldwide Organization differs from some of the other major firms, and the number of countries surveyed is limited. But the survey results are believed to represent the current situation inasmuch as all the major firms share certain common characteristics, and the countries surveyed account for about 60 percent of world trade and 80 percent of gross world product (excluding the Soviet bloc).[37]

The survey is designed to identify nations in which any of seventeen types of impediments may occur, to measure the significance of the barriers to local operations, and to determine whether they affect all or only some service lines. This section of the paper discusses some of the information produced by that survey.

A. Categories of Impediments to the Operations of International Accounting Organizations

Government-created impediments to the growth and operations of international accounting organizations fall into three broad categories. First are the general impediments to trade in services connected with the recent general deterioration of the multilateral

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[36] Edwin W. Macrae, Impediments to a Free International Market in Accounting and the Effects on International Accounting Firms, in John C. Burton, ed., The International World of Accounting: Challenges and Opportunities 143, 145-50 (1981). Macrae makes the important point that the United States itself imposes a number of impediments to foreign accountants that deserve attention.

[37] These figures were derived from data found in World Bank, World Development Report 1985 at 178-79; International Monetary Fund, Direction of Trade Statistics Yearbook 1984 at 2-7.

trading system as a whole. The deterioration of the system is evident in the failure of national governments worldwide to live up to their obligations under the trading rules, in the substitution of new and novel forms of protection for those negotiated away in the past, and in the apparent inability of the system to resolve trade disputes quickly and effectively.

These problems are not the focus of this article, and they were not addressed by the Arthur Andersen survey, but they deserve mention because they indirectly affect the international growth of accounting and other service firms. Because these firms provide services to other businesses, and because an important segment of their worldwide market is in providing services to companies that trade and invest abroad, the trading system's deterioration hinders the growth of accounting and other service firms by limiting or adversely affecting their client's operations. Moreover, the level of demand for accounting services beyond those required by law is influenced by broad trends in economic activity. To the extent that protectionism depresses economic activity, the market for accounting services is also depressed.[38]

The other two categories of impediments are those generic to trade in services and those specific to international accounting organizations.

1. *General Impediments to Trade in Services.* A number of impediments affecting service industries generally were included in the Arthur Andersen survey to determine their specific impact on accounting firms. Among these general restrictions, four categories create the most significant problems for international accounting organizations.

a. *Restrictions on International Payments.* Payments between the national practice entities and the international organization, as well as among the national practice entities, are the lifeblood of the international accounting organizations. They must be able to make these international transfers for three essential reasons. First, in order for an international organization to provide the support capability which makes it unique, national partnerships must be able to share in the costs of the services the interna-

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[38] For a discussion of the private sector views on the deterioration of the international trading system, see Advisory Committee for Trade Negotiations, Chairmen's Report on a New Round of Multilateral Trade Negotiations, Submitted to the United States Trade Representative (May 15, 1985) (copy on file with the University of Chicago Legal Forum). This document collects reports prepared by private sector advisory committees on "what U.S. objectives and priorities should be in new multilateral trade negotiations." Id. at i.

tional organization provides, including such things as training and professional education, standard-setting and quality control, marketing and advertising support, provision of technical information, development of new services and general management support. Second, national practice entities must be paid for services they provide to clients of other national practice entities and for services delivered outside their own national boundaries. Third, since each national practice entity has an interest in maintaining the availability of an international service capability for its own clients with international operations, it must be able to share in the costs of maintaining that capability. In this sense, all national practice partners worldwide have a common interest in maintaining the quality of professional service. These international transfers therefore bind together the international accounting organization, composed of many national practice entities, and are critical to the affiliated firm's competitiveness in any particular national market.

Government impediments to the transfer of fees and other international payments are principally motivated by the need to manage foreign exchange. But there is also reason to believe that, in some cases, exchange controls are used to limit the national practice entities' relationship with the international organization. International firms encounter several types of impediments to the transfer of international payments:

- Some countries subject foreign remittances to very high rates of tax withholding or do not permit inter-firm (i.e., national practice entity/international firm) costs to be deducted.
- One country permits only remittances by foreign subsidiaries (not national partnerships) and limits, through high rates of taxation, remittances that exceed a specified percentage of capital investment. Because they are not capital-intensive, this restriction falls particularly hard on service firms generally and on accounting firms in particular.
- Another country limits the firm's work to engagements where payment is made in foreign currencies.
- Several countries impose lengthy authorization procedures before foreign exchange can be obtained and international payments can be commenced, which may lead to foreign exchange losses and increase administrative costs.

Restrictions on international payments are the most important impediments found in the Arthur Andersen survey. Fifteen of the twenty-seven responding national practice entities covered by the survey reported exchange control or other payment problems, and fourteen of the fifteen consider these problems significant. Of the fifteen countries involved, seven are OECD members and eight are developing nations.

b. *Restrictions on the Mobility of Professional Personnel.* The ability to transfer professional personnel among national practice entities and to international facilities for short or long-term assignments is important to the operation of international accounting organizations. Sharing specialized skills and service capabilities occurs most successfully when professionals can be located in the markets where these capabilities are first being introduced and be kept there until sufficient local personnel obtain training and experience. In addition, some firms have established centralized training facilities in certain countries, which requires that large numbers of professionals be able to enter these countries for varying periods. Finally, international accounting organizations assign personnel to work in foreign offices in order to familiarize them with firm culture and methodology so that they can return to their home countries to establish or expand new national practices.

Governmental impediments to personnel transfer take the form of requirements and procedures for obtaining visas and work permits for foreign nationals. Foreign nationals may be denied entry outright, or may be required to go through long and complicated approval processes. National immigration and employment policies which seek to control the number of foreign entrants, and to protect local employment in certain occupations, are responsible for some of these problems.[39]

Difficulties in transferring professional personnel into foreign locations are experienced by national practice entities in sixteen of the countries surveyed. Two responding national practices find this problem very significant, while the other fourteen find it somewhat less so, though still noteworthy. Of the national practice entities reporting these problems, eight are in OECD member countries and eight are located in developing nations.

c. *Impediments to Technology and Information Transfer.* Three sets of issues, which can be loosely grouped under the heading of technology and information transfer problems, were also reported by the respondents to the survey: high tariffs or other restrictions on the import or export of software, technical publications and training materials; problems (including excessive costs) in transferring data into or out of a country; and inadequate

[39] See U.S. Study at 39 (cited in note 27).

copyright, trademark or other intellectual property protection. Together these problems increase costs and limit access to the accounting and management consulting "technology" that is transferred among affiliated national practice entities through the international accounting organization. These obstacles complicate client service, and threaten the loss of proprietary rights to management and technical "know-how" that was developed at significant expense.

Governments impede technology transfer for many reasons. Some restrictions on data transfers are imposed for national defense and economic security reasons. More significant government practices, however, include: attempts to raise revenues by taxing the perceived value of intangible "products" rather than the tangible medium in which they are contained; efforts to retain at home the economic value-added of data processing; programs to develop indigenous technologies and related industries; and attempts to obtain technology for the country at little or no cost.[40]

The survey of Arthur Andersen national practices found that nine responding countries impose high tariffs or other restrictions on the import or export of software and training materials. Eight of the nine are developing countries. Eight national practices encounter difficulties in transferring data into or out of their countries. Four of these countries are OECD members and four are developing countries. Four local practice entities cite problems of intellectual property protection in developing countries.

d. *"Buy National" Practices.* Government procurement policies may discriminate against internationally affiliated firms either by denying access to the procurement process or by giving special preference to local unaffiliated firms. In addition, official policies that discriminate among service providers may influence the behavior of private sector companies. These policies could pose particularly severe constraints on the growth of the affiliated national practices in countries where the government sector dominates the national economy or where the market for services needed by government entities is growing rapidly.

Many governments with "Buy National" policies clearly take the view that public monies ought to be used to promote domestic businesses. Procuring services from unaffiliated domestic businesses, moreover, may yield more visible political benefits, even

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[40] For a discussion of these technology and intellectual property issues, including the motivations of governments in these areas, see Office of the United States Trade Representative, Annual Report on National Trade Estimates, 1985 at 223-37.

though procurement from other sources may be more cost-effective and yield higher quality products or services. In the private sector, "Buy National" attitudes may reflect government pressure or deeply-embedded social and cultural traditions. "Buy National" policies and practices have taken several forms:

- One country required a firm to set up a separate, domestically incorporated legal entity in order to gain access to the government procurement market.
- In competing for government contracts, two national practices have encountered an informal bias against internationally-affiliated firms.
- In another country, major banks significantly influence their clients' selection of auditors: the banks direct the business toward national accounting firms which they owned in the past or in which they still hold an ownership position.
- One country has established a quasi-government-owned consulting firm which locks other firms out of government consulting engagements.

The national affiliates of international accounting firms, while affected by "Buy National" policies, have limited the impact of this bias through their national ownership and management structures. That is, in most countries, internationally affiliated national practice entities do not operate as "foreign" firms. Thus, while nine national practice entities are affected by "Buy National" policies, six of the nine considered these policies to have relatively insignificant effects on local practice growth. All three of the practice entities which found the policies important were located in developing countries. In most cases, "Buy National" policies do not appear to be embedded in government laws or regulations. Rather, they stem from informal administrative pressures, bureaucratic preferences and the local business tradition that well-established national companies are "expected" to use equally well-established—and unaffiliated—national accounting firms.

2. *Impediments Specific to Accounting Organizations.* In addition to the previously discussed impediments which affect many service industries, accounting firms face a variety of barriers unique to their lines of business. These impediments relate to government and professional regulation of accountants, limitations on the ability to exploit the synergy among their service lines, and the organization of national practice entities.

a. *Professional Certification Difficulties.* Most nations regulate the rights to practice accounting and to sign audited financial statements both through laws governing the accounting profession directly and through regulations promulgated by professional accounting societies. Auditing, of course, is the central line of business for internationally affiliated and purely local firms alike. Many countries, however, impose a significant burden on the international firms by using the professional certification process to limit the ability of foreign accountants to practice within their jurisdictions.[41] These limitations take several forms:

- In some cases, practicing accountants are required to be citizens or residents for prescribed periods of time.
- In other cases, the certification process compares domestic and foreign credentials in a manner that places undue weight on matters that have little to do with professional competence.
- In some instances, preferences are given to citizens of certain countries (especially where the applicant's home had formerly been a colony of the certifying state, or vice versa), and procedures and examinations for other foreigners are subject to unreasonable bureaucratic delay.

International accounting organizations, on the whole, have overcome these problems by establishing national partnerships, and such impediments tend to diminish in significance as the national entities become established in their markets. Nonetheless, these problems are important start-up obstacles in new markets, when extensive assistance may be required from other affiliated practice entities and from the international organizations. When establishing themselves in a market, the national practice entities frequently require personnel support and specialized skills available only from abroad. Even at later stages, professional certification problems may significantly impede the national practice entities' provision of new services and their development of state-of-the-art competence necessary for certain types of jobs.

The survey of Arthur Andersen national practice entities found that professional certification requirements create problems in twenty-one of the twenty-seven countries covered. Eight of the responding practice entities find these problems to be significant factors in practice development, while the remaining thirteen find them less important. Twelve of the twenty-one practice in OECD member nations.

b. *Scope of Practice Limitations.* There is considerable syn-

[41] Macrae, Impediments to a Free Market at 146 (cited in note 36).

ergy among the basic types of services offered by accounting firms.[42] Accumulated experience with a client's operations, industry and personnel in one service line enables firms to perform other types of services for that client more effectively. Moreover, a successful market strategy for a firm when entering some countries may be to rely on non-audit revenues while the national entity builds its audit practice.

Some governments and professional societies, however, strictly limit the scope of practice of accounting firms, ostensibly to protect the integrity of the audit function. Independence as auditors is more an issue of the relative importance of a single client to a firm's total income than it is a question of scope of services. Furthermore, such impediments may reduce efficiencies in providing services, create market entry problems, or significantly increase overhead costs by requiring firms to operate through multiple legal entities—in some cases seven or eight within a single country. These limitations may take the form of:

- Prohibiting accounting firms from offering non-accounting services.
- Forbidding accounting firms from advertising their other service lines.
- Requiring that tax or consulting practitioners not be associated with providers of other types of services.

Generally speaking, the firms have been able to overcome unreasonable scope of practice limitations by establishing segregated national partnerships limited to providing a single line of services. Nonetheless, the survey disclosed that scope of practice limitations still pose notable operating problems in four of the OECD countries and three of the developing countries examined. Four of the national practice entities found these limitations to be significant barriers.

c. *Use of the International Firm Name.* The use of the international firm name by the national practice entities serves as a "culture catalyst," enhancing the linkages to a worldwide organization, and as an important competitive asset, attracting clients who have had previous experience with the affiliated firms in other countries. The Arthur Andersen survey found limitations on the local use of the "Arthur Andersen" name in twelve countries, six of them OECD members and six developing countries. Five of the reporting practice entities consider this a significant impediment to

[42] For a description of the services provided by accounting firms, see text at notes 5-13.

their operations and growth.

d. *Other Impediments.* Other accounting-specific impediments revealed by the survey include prohibitions on forming a relationship with a local partnership, limitations on the number of partners, difficulties in obtaining "audit corporation" status or similar designation permitting the firm to sign financial statements, limitations on the number of audits performed by a firm, and tax discrimination. These problems tend to be isolated in one or a few of the twenty-seven countries surveyed, though they create real barriers to market entry and growth in those particular nations.

B. General Patterns Revealed by the Survey

A few patterns emerge from the survey that may help in developing approaches for resolving these issues through multilateral negotiations or other means.

1. *Most Severe Impediments.* Three particular impediments appear to be especially troublesome to international accounting organizations, based on the number of countries in which they occur and the judgment of the national practice entities that they are significant barriers. These are: restrictions on international payments; difficulties in obtaining visas and work permits for expatriates; and problems with respect to professional certification of foreign accountants. Overall, other impediments occur less frequently and are less significant, although individual practice entities find that some of them pose real problems for their particular operations.

2. *Incidence and Intensity of Impediments.* The survey shows widespread governmental impediments to, and professional constraints on, national practice development. Twenty-five reporting practice entities indicate they encounter one or more barriers to their operations and growth.

Measuring the intensity or significance of the impediments is more difficult. Nearly 60 percent of the impediments reported in the survey are considered relatively insignificant but still noteworthy. Five practice entities report no impediments or very few, all of which are of little significance to their operations. At the same time, a few of the practice entities face one or two severe impediments or several less critical impediments which, if viewed in isolation, might seem relatively unimportant, but in combination pose severe obstacles.

3. *Geographic Distribution.* The problem of impediments appears to be greater in developing countries than in OECD member

countries. About 40 percent of the impediments cited exist in OECD member countries and 60 percent in developing countries. On a per country basis, developing countries have over twice as many barriers. Moreover, over 60 percent of the significant barriers exist in developing nations.

These generalized considerations hold true when applied to individual countries, but there are a few important exceptions. Of the five countries with few or no impediments to the operations of international accounting organizations, and which therefore might be considered open markets for such firms, all have strong business traditions linked to the United Kingdom. Moreover, the number of impediments existing in two OECD member countries equals or exceeds, on average, the number in the developing countries.

4. *Distribution by Practice Area.* The survey confirms that impediments to international accounting organizations affect all three major service lines. The incidence and impact of impediments is most significant, however, in the areas of auditing and accounting. The tax practice is somewhat less affected, and management consulting is affected the least, although in both areas the number of countries imposing barriers, and the variety of impediments enacted, are still significant.

IV. Approaches to Overcoming Impediments to the Operations of International Accounting Firms

On the whole, international accounting organizations have found the international economy an amiable environment in which to grow and contribute to economic prosperity and development. Nonetheless, in virtually every country they face some form of government impediment or professional constraint that discriminates in purpose or practice between unaffiliated national firms and affiliated national practice entities, or that imposes undue burdens on the international ties that bind together their multiple national practice entities. In some cases, these impediments and constraints are serious obstacles to market entry and practice development.

Government impediments and professional constraints are likely to pose more serious problems for the international accounting organizations as they focus on developing international markets and achieving a better balance of revenues between their country-of-origin practices and other national practices. These impediments, furthermore, will diminish not only the growth opportunities for the international organizations, but also the degree to which they can benefit the national economies in which their practice entities operate.

There is ample justification, as a result, for multilateral efforts to establish common rules of behavior and a framework for seeking the reduction of these impediments in a manner that accommodates the interests of the firms, the profession and national governments. Some countries have objected to calls for multilateral negotiations on service trade or for liberalization efforts by those outside government, arguing that the changes which grow out of such activity would impinge upon their national sovereignty.

Yet the request for action by many nations together, and by professionals in the industry, is not intended to challenge national sovereignty. Liberalization of trade in services should be pursued because it will be beneficial for all nations concerned. Negotiations among nations, and action by professionals in the accounting industry, are simply the most efficient ways to achieve this desirable goal.

Indeed, by organizing themselves as international affiliates of locally owned partnerships, and by actively participating in domestic professional organizations that serve national interests, the international accounting organizations have woven local law, local individuals, and local ownership into their structure to a greater degree than most other international businesses. To an unusual degree, therefore, these organizations have subjected themselves to the laws and culture of each nation in which they operate. Having done so, it would be anomalous for the same firms to attempt to interfere with the sovereignty of those nations.

Rather, the intent of the call for multilateral action is to find a common ground on which governments can pursue their objectives without unreasonably constraining firms that operate in multiple national locations. Finding this common ground will require actions by the firms, the profession and governments.

A. Action by the International Accounting Organizations

National practice entities affiliated with international accounting organizations must satisfy several prerequisites before addressing operational impediments. They must strictly comply with all national laws and fully abide by the code of ethics and other professional requirements of the national accounting bodies. Their professionals must retain their political independence and contribute to the national economic objectives of the countries in which they practice. Absent any of these, the misperception that the national practice entities are "foreign" and that their allegiances lie elsewhere is only reinforced.

International accounting organizations are acting, and should continue to act, along two lines to meet the objectives of national governments, while overcoming the biases that underlie many of the impediments they face. First, the trend toward creating genuinely national firms affiliated into international accounting organizations must and will continue. The development of such organizations can do much to dispel the notion that affiliated firms are foreign at all, and therefore help to eliminate the fears which prompt protectionist action by national governments. To further this trend, multinational accounting firms should continue their current practice of establishing their presence through affiliated national firms and reinforcing this key characteristic, while strengthening the international resources that can significantly contribute to each local economy in which they operate. Arthur Andersen, for example, addresses these needs through its worldwide organizational structure, and continually turns ownership and management responsibility over to nationals of the countries in which new practices are being established. The Arthur Andersen Worldwide Organization has also sought to transfer "know-how" among, and upgrade the skills of, its professionals in all national practice entities. International accounting organizations should continue to commit substantial resources to supporting professional education, as an important contribution to the development of the countries in which their national practice entities operate.[43]

Second, the international accounting organizations should continue to inform the public and governments about their organizational structures and the contributions they make to national economies. This is not an easy task. The organizations are unique in the way they operate, and their structures are not comparable to other international businesses, nor are they easily understood. Moreover, there is no widespread comprehension of the accounting profession or of the firms' intangible "products." Nonetheless, while protecting their own and their clients' proprietary information, the firms should continue to educate the public on these matters in order to achieve a better general understanding of their contributions to national economies.

B. Actions by the Profession

In a number of countries, the accounting profession is largely

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[43] Arthur Andersen, for example, devotes roughly 10 percent of annual worldwide revenue to professional education programs. Arthur Andersen & Co., S.C., What the Arthur Andersen & Co. Difference Means to You 5 (1984) (copy on file with the University of Chicago Legal Forum).

self-regulated through its professional organizations, and in most countries these professional bodies play a key interfacing role between individual firms and government regulatory authorities. As a result, the professional organizations may provide a means for addressing some of the impediments to international operations.

Through its international organizations and conferences, the profession could provide substantial assistance in efforts to correct one of the most pervasive impediments to international operations: the problems non-citizens face in obtaining professional certification in foreign countries. The international professional organizations might focus initially on voluntary guidelines and common criteria for comparing different national educational credentials and professional experience. The national professional organizations agreeing with these guidelines, in turn, could work with their governments to incorporate the guidelines into national regulations and procedures where necessary. (This recommendation, of course, poses a significant challenge to the profession in the U.S., where certification is granted by the states.[44]) Ideally, this type of arrangement would lead to some form of reciprocal certification among countries. Even something less, however, would reduce the use of wholly unreasonable certification requirements, limit the influence of arbitrary bureaucratic delays and biases on the certification process, and establish a base from which to seek additional improvements.

There is precedent for this type of effort. The International Federation of Accountants, which has member professional organizations in about sixty countries, has worked extensively on international guidelines for minimum educational and training standards in the profession.[45] Professional societies in some countries, moreover, have developed reciprocal arrangements for recognizing the credentials of accountants in other countries. (Within the U.S., the profession has also worked for harmonization among the state requirements.[46]) The profession worldwide has direct interests and

[44] The United States may very well pose the most significant obstacles to international harmonization of certification requirements and procedures in light of state regulation of the profession. Although all states use a uniform CPA examination, other certification requirements, such as education, experience,and residency or citizenship, vary from state to state. See generally, American Institute of Certified Public Accountants and National Association of State Boards of Accountancy, Digest of State Accountancy Laws and State Board Regulations (1985).

[45] David Solomons, Accounting Education: An International Perspective, in John C. Burton, ed., The International World of Accounting: Challenges and Opportunities 177, 185-87 (1981).

[46] Although each state sets its own certification requirements, all states employ the

capabilities in these areas. Its initiative should not only be encouraged, but also extended to include support for government incorporation of the standards it develops.

C. Actions by Governments

The new round of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT), focusing on service trade issues, could benefit international accounting organizations. To the extent that negotiations are successful in shoring up the trading system and providing the basis for continuing trade liberalization, the international accounting organizations stand to benefit in two fundamental ways. First, the liberalization of service trade will benefit their clients in service industries and thus contribute to the growth of demand for accounting services. Second, service trade negotiations will address some of the impediments that specifically affect the operations of international accounting organizations.

The realization of these direct benefits from international service negotiations for providers and consumers of accounting services, however, depends upon the objectives of the negotiations and the specific types of barriers they address. The United States government has proposed an agenda for negotiations that would lead to a framework agreement on rules and procedures covering "trade" in services as a whole, and individual functional or sectoral commitments to deal with unique problems not amenable to the more general framework agreement.[47] The framework agreement—covering transparency, national treatment, regulatory procedures, public monopolies, dispute settlements and market access—is an important general objective, especially as a means of forestalling new discriminatory national impediments in the accounting sector and establishing a basis for firms to suggest improvements in regulation or, if necessary, to seek redress of grievances. The functional and sectoral agreements—especially in the areas of information flows, intellectual property protection, government procurement, competition by government-owned enterprises, and investment—would address more directly a number of the

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Uniform CPA Examination prepared by the American Institute of Certified Public Accountants. In addition, the National Association of State Boards of Accountancy assists state boards of accountancy in administering the examination, and helps coordinate other activities of state boards as well. See American Institute of Certified Public Accountants, Information for CPA Candidates 1, 23-25 (7th ed. 1985).

[47] U.S. Study at 55-57 (cited in note 27).

specific operational problems that confront international accounting organizations in some countries.

Two of the most significant and widespread impediments to the operations of international accounting organizations, however, are left untouched by the negotiations now being contemplated for services. These are restrictions on international payments and restrictions on the movement of professional personnel.[48] The survey results discussed in Part III of this article suggest that these restrictions are among the most burdensome impediments to international trade in accounting services. Governments must therefore address these issues if the liberalization of services is to have real meaning for international accounting organizations and their affiliated firms' clients. The firms' international operating structures and, thus, their ability to bring the benefits of their services to national economies, critically depend on the freedom of business financial transactions and the movement of people.

These issues, of course, go far beyond "trade" in the strict sense of the word. They involve sensitive questions of currency and exchange controls and immigration policies. But multilateral and bilateral precedents exist for addressing them. Therefore, governments ought to consider building on these precedents by initiating discussions on payment restrictions and impediments to the movement of professional personnel separate from (but in tandem with) multilateral trade negotiations under the GATT.

With respect to international payments, the point of departure may be the OECD Code of Liberalisation of Current Invisible Operations.[49] The Code already encourages the elimination of restrictions on and the simplification of formalities associated with current invisible transactions.[50] It specifically includes most of the types of transactions engaged in by international accounting organizations and their national practice entities.[51] OECD member

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[48] The U.S. Study discusses restrictions on the transfer of royalties, fees and profits as they affect accounting services, id. at 147-48, but this issue is not covered in later presentations by the U.S. Trade Representative to the GATT on an agenda for a new round of multilateral trade negotiations. The U.S. Study also discusses restrictions on the movement of professional personnel, but concludes that this issue should be excluded from multilateral negotiations and addressed through existing consular mechanisms. Id. at 39.

[49] Organisation for Economic Co-Operation and Development, Code of Liberalisation of Current Invisible Operations (March 1973) ("OECD Code").

[50] Id. at arts. 1(a), 1(b), 2(a).

[51] The transactions mentioned in the Code are: "[p]rofessional [s]ervices (including services of accountants, artists, consultants, doctors, engineers, experts, lawyers, etc.)," id. at Annex A, Ref. No. K/6, and those involving "[t]echnical assistance (assistance relating to the production of goods and services at all stages, given over a period limited according to

countries should expand their current reexamination of the Code to address issues relating to international payments.[52] In particular, they should study the feasibility of uniform, simplified payment formalities, and more closely define the exceptions to the general measures of liberalization.[53] The Code also encourages OECD members to seek wider acceptance of its principles among all members of the International Monetary Fund (IMF).[54] Thus, the IMF Articles of Agreement may provide the basis for developing more generally applicable rules on the liberalization of invisible transactions.

With respect to the movement of professional personnel, precedent for international cooperation and liberalization exists in bilateral Treaties of Friendship, Commerce and Navigation (FCN) and visa or consular agreements. FCN treaties, for example, commit signatories to permitting nationals of the other country to enter and reside within their territories for the purpose of engaging in commercial activities.[55] While more recent FCN treaties between the U.S. and other nations exempt the professions,[56] this is precisely the kind of provision which would be of use in liberalizing professional service trade. Countries should therefore seek to agree on provisions of this type, either in FCN pacts or in other international agreements. Governments should ensure that existing bilateral obligations are carried out with a minimum of delay and redtape. They should also explore the possibilities of easing immigration restrictions intended to protect local employment in

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the specific purpose of such assistance, and including . . . advice or visits by experts, preparation of plans and blueprints, supervision of manufacture, market research, training of personnel)." Id. at Annex A, Ref. No. A/3.

[52] For a summary of the implications of the Invisible Code for service industries, and a discussion of issues arising out of use of the Code as an instrument of service trade liberalization, see Organisation for Economic Co-operation and Development, Liberalisation of Trade and Investment on the Services Sector: The Role of the OECD Codes, Background Note by the Secretariat (November 15, 1985) (copy on file with the University of Chicago Legal Forum).

[53] See Id. at 12. Under the provisions of the current Code, member States are authorized to take actions otherwise inconsistent with the Code's measures of liberalization for reasons of "Public Order and Security." OECD Code at art. 3 (cited in note 48). Member States are also authorized not to "take the whole of the measures" when their "economic and financial situation justifies such a course." Id. at art. 7.

[54] OECD Code at art. 1(d) (cited in note 48).

[55] See, for example, U.S.—Japan Treaty of Friendship, Commerce and Navigation, art. I(1), 4 U.S.T. 2063, T.I.A.S. No. 2863, 206 U.N.T.S. 143 (signed Apr. 2, 1953). Similar provisions exist in FCN treaties with other countries.

[56] For a discussion of the treatment by FCN treaties of trade in professional services, see Geza Feketekuty, Trade in Professional Services—An Overview, 1986 U. Chi. Legal F. 1, 16-19.

the professions and of moving toward a multilateral understanding on these issues among like-minded countries.

CONCLUSION

The improvement of the multilateral trading system and extension of trade liberalization to service industries are important to global economic prosperity. The experience with freer merchandise trade over the past forty years demonstrates that a more open international economy benefits all nations that participate in it. Yet, the persistence of many traditional trade barriers and the rise of new ones threaten the viability of the system today. This threat grows larger as the world economy shifts to significant new areas—such as services and information technology—that are not subject to GATT or other effective multilateral discipline.

International accounting organizations, like other international service and manufacturing industries, benefit from an open international economic system that enables them to contribute to the economic and social development of countries in which they operate. Their ability to do so, however, is affected by a slow yet perceptible increase in government impediments and professional constraints on their operations. These barriers deserve attention in current efforts to extend freer trade to service industries.

International trade in accounting services will benefit from the service and other trade liberalization agreements proposed in the U.S. government's agenda for GATT negotiations. But effectively addressing the specific impediments to the operations of international accounting firms requires recognizing their unique characteristics—their structures as national practice entities linked to international organizations, the blend of public oversight and self-regulation of the profession, and the beneficial roles they play in public and private sector finance and management. These characteristics underlie this article's recommendations for actions by the firms, the profession and governments. Each plays an important role in an effective program for addressing the major impediments to the international firms' operations.

This program calls on the firms to continue to reinforce the policy of local ownership and management of the national practices, and to expand their public education efforts. It encourages the international professional organizations to address professional certification issues among countries. It requires governments to build on existing multilateral and bilateral instruments to remove impediments to international payments and personnel transfers. Progress may be difficult, but the effort is necessary if liberalization of trade in accounting services is to take place in any meaningful way.